

# INSTRUCTIONS

## 1997 KENTUCKY CORPORATION INCOME AND LICENSE TAX RETURN

### ITEMS OF SPECIAL INTEREST

**Internal Revenue Code Reference Date**—For taxable years beginning after December 31, 1996, the "Internal Revenue Code" for Kentucky income tax purposes means the IRC in effect on December 31, 1997, exclusive of any amendments made subsequent to that date, other than amendments which (1) provide for changes in accounting methods or (2) extend provisions in effect on December 31, 1997, that would otherwise terminate.

**Consolidated Income Tax Return**—KRS 141.200(3) allows an affiliated group to elect to file a consolidated Kentucky income tax return with the election being binding for eight years. Form 722, Election to File Consolidated Kentucky Corporation Income Tax Return, must be submitted to the Revenue Cabinet with the return timely filed for the first taxable year for which the election is made. The election must be made by the common parent corporation on behalf of all members of the affiliated group. "Affiliated group" means affiliated group as defined in Section 1504(a) of the IRC and related regulations. **Regulation 103 KAR 16:200**

**KRS 141.120(11) prohibits affiliated corporations from filing a combined Kentucky corporation income tax return using the unitary business concept.**

**Kentucky Net Operating Loss (KNOL) Deduction**—The amount of net operating loss (NOL) to be carried back or forward and deducted for Kentucky income tax purposes is the amount of loss determined under KRS Chapter 141. In accordance with IRC Section 172, unless the corporation elects to relinquish the carryback period, the loss must first be carried back to the earliest of the three preceding years and then carried forward 15 years.

**To elect in accordance with IRC Section 172(b)(3) to relinquish the carryback period and carry the entire loss forward, check the box in question 7 of Schedule Q, Kentucky Corporation Questionnaire, included with the Kentucky return filed for the loss year. This election is irrevocable. An election for federal purposes does not constitute an election for Kentucky purposes.**

**Amended Return**—Form 720X, Amended Kentucky Corporation Income Tax and Corporation License Tax Return, is available for filing an amended return. Use Form 720X to correct Form 720 and/or Form 720L. This form may be obtained from the Revenue Cabinet.

**Internal Revenue Service Audit Adjustments**—A corporation which has received final adjustments resulting from Internal Revenue Service audits must submit a copy of the "final determination of the federal audit" within 30 days of the conclusion of the federal audit. Use Form 720X for reporting federal audit adjustments and computing additional tax due or refunds. Any refund claim resulting from a federal audit adjustment must be filed within the four-year period provided by KRS 141.235 or within six months from the "conclusion of the federal audit," whichever is later.

**Limited Liability Companies**—KRS 275.005 allows the formation in Kentucky of limited liability companies and limited liability partnerships. KRS 141.208 provides that any limited liability company treated as a partnership for federal income tax purposes must be treated as a partnership for Kentucky income tax

purposes pursuant to KRS 141.206; and any limited liability company treated as a corporation for federal income tax purposes must be treated as a corporation for Kentucky income tax purposes pursuant to KRS 141.040.

**Corporations Doing Business in Kentucky Solely as a Partner in a Partnership**—If during the taxable period a corporation was not organized under the laws of Kentucky, was not commercially domiciled in Kentucky and neither owned or leased tangible property nor had employees in Kentucky but was a partner in a partnership doing business in Kentucky, the corporation is subject to Kentucky income tax on its distributive share of income passed through the partnership pursuant to KRS 141.206. A corporation doing business in Kentucky solely as a partner in a partnership must determine and report its Kentucky taxable net income in accordance with the instructions for Part I—Taxable Income Computation, Lines 1 and 16.

**Optional License Tax Computations for Corporations Holding Stock in Other Corporations**—A corporation domiciled in Kentucky which holds stock or securities in other corporations equal to or greater than 50 percent of its total assets (investment ratio) may:

1. file a consolidated license tax return with all corporations (except those corporations exempt from tax under KRS 136.070) in which it owns directly or indirectly more than 50 percent of the corporation's outstanding stock, or
2. file a separate entity license tax return and deduct from its total capital, the book value of its investment in the stock and securities of any corporation in which it owns more than 50 percent of the corporation's outstanding stock. Attach a schedule showing the computation of the investment ratio and a schedule showing the computation of the deduction listing the name of each corporation, percentage of stock owned and the amount of deduction taken. **KRS 136.071**

**Capital Defined**—"Capital" is defined by KRS 136.070(2) and is not dependent upon the various technical definitions of capital prescribed for accounting, economics or other governmental purposes. "Capital" includes, but is not limited to, the capital stock accounts, surplus (retained earnings) accounts, intercompany accounts, advances by affiliated companies, borrowed monies (see exceptions in the following paragraph) and all other accounts which represent capital used and employed in the business, such as deferred income or taxes, customer advances and customer deposits. Equity capital required under A.P.B. Opinion 18 shall be included in capital if the corporation elected to record such equity on its books or general ledger. **KRS 136.070(2)**

Do not include those liabilities representing customer trade accounts and trade notes payable, taxes payable, salaries payable and accounts payable. In the case of borrowed monies, the corporation may exclude amounts directly borrowed to purchase inventory, provided the corporation can show that the amounts excluded were specifically used to purchase inventory.

KRS 136.070 provides that the accounts comprising capital shall be reported at the value shown on the financial statement prepared for "book" purposes, i.e., the value as shown on the year-end general ledger after all closing entries have been made.

Amounts from various special purpose balance sheets such as "equity," "businessman's," "tax," etc., are not acceptable.

## GENERAL INFORMATION

**Who Must File**—A Kentucky Corporation Income and License Tax Return, Form 720, must be filed by every corporation (a) organized under the laws of Kentucky, (b) having its commercial domicile in Kentucky, (c) owning or leasing property in Kentucky, (d) having one or more individuals employed or subject to unemployment insurance tax in Kentucky or (e) which is a partner in a partnership doing business in Kentucky. **KRS 141.200 and KRS 136.090**

Corporations which are exempt by law from Kentucky income tax include financial institutions as defined in KRS 136.500, insurance companies, savings and loan associations, corporations exempted by IRC Section 501 and religious, educational, charitable and like corporations not conducted for profit. **KRS 141.040**

Corporations which are exempt by law from Kentucky income tax are also exempt from Kentucky license tax. In addition, public service companies subject to ad valorem tax under KRS 136.120, certified alcohol production facilities and certified fluidized bed energy production facilities are exempt from Kentucky license tax. **KRS 136.070**

Foreign Sales Corporations (FSCs) and interest-deferred or interest-charged Domestic International Sales Corporations (DISCs) are subject to Kentucky income and license tax to the same extent as other corporations (see Revenue Policy 41P250 for a discussion).

Additionally, certain organizations which must file special returns for federal purposes are subject to Kentucky income tax to the same extent as other corporations, e.g., homeowners associations, political organizations, real estate investment trusts and regulated investment companies.

**Required Forms and Information**—Each corporation must enter all applicable information on Form 720, attach a schedule for each line item or line item instruction which states "attach schedule," **attach Form 1120 (pages 1 and 4)** and the following forms or schedules, if applicable:

### Kentucky Forms and Schedules

1. Form 722—Election to File Consolidated Kentucky Corporation Income Tax Return
2. Form 851-K—Kentucky Affiliations and Payment Schedule
3. Schedule A—Apportionment and Allocation
4. Form 41A720SL—Application for Six-Month Extension of Time to File

### Federal Forms and Schedules

1. Form 851—Affiliations Schedule
2. Form 4797—Sales of Business Property
3. Schedule D—Capital Gains and Losses
4. Form 5884—Jobs Credit
5. Schedules for items on Form 1120, Schedule L, which state "attach schedule."

**Substitute Forms**—Any form to be used in lieu of an official Revenue Cabinet form must be submitted to the Cabinet for prior approval.

**Accounting Procedures**—Kentucky income tax law requires a corporation to report income on the same calendar or fiscal year and to use the same methods of accounting required for federal income tax purposes. Any federally approved change in accounting periods or methods must be reported to the Revenue Cabinet. Attach a copy of the federal approval to the return when filed. **KRS 141.140**

**Filing/Payment Date**—A corporation return must be filed and payment must be made on or before the 15th day of the fourth month following the close of the taxable year. Mail the return with payment to Kentucky Revenue Cabinet, Frankfort, KY 40620. Make the check payable to **Kentucky State Treasurer. KRS 141.160 and KRS 141.220**

If the filing/payment date falls on a Saturday, Sunday or a legal holiday, the filing/payment date is deemed to be on the next business day. **KRS 446.030(1)(a)**

**Extensions**—An extension of time to file a corporation income and license tax return may be obtained by either making a specific request to the Revenue Cabinet or attaching a copy of the federal extension to the return when filed. For further information, see the instructions for Form 41A720SL. **Regulation 103 KAR 15:050**

**NOTE: An extension of time to file a return does not extend the date for payment of tax.**

**Short-period Computation of Income Tax**—A corporation filing a short-period income tax return is required to annualize taxable net income. To annualize, multiply taxable net income computed for the short period by 365 and divide by the number of days in the short period. The income tax liability shall be the tax computed on the annualized income multiplied by the number of days in the short period and divided by 365 (see Revenue Policy 41P020 for a discussion). **KRS 141.140**

**Short-period Computation of License Tax**—A corporation filing a short-period license tax return resulting from a change in accounting period is required to annualize its license tax liability. To annualize, multiply the license tax liability by the number of months in the short period and divide the result by 12. **KRS 136.100**

**Estimated Tax Payments**—Estimated tax payments must be made by each corporation whose income tax liability for the taxable year can reasonably be expected to exceed \$5,000. In general, the first estimated tax payment must be made by the 15th day of the sixth month of the taxable year. To determine the amount of the first payment, subtract \$5,000 from the estimated full-year tax liability, and divide the result by two. The remaining one-half is due in equal installments on the 15th day of the ninth and 12th month, respectively. The prior year's income tax liability is not a factor in determining whether estimated payments are required. **KRS 141.044**

Failure to pay estimated tax installments equal to the amount determined by subtracting \$5,000 from 70 percent of the total income tax liability shown on the return for the taxable year will result in the assessment of an underpayment penalty. The amount of the penalty is 10 percent of the amount of the underpayment, but not less than \$25. **KRS 131.180(3) and KRS 141.990(3)**

The **Corporation Estimated Income Tax Voucher, Form 720ES**, is used to submit estimated tax payments. If the corporation is required to make estimated tax payments but did not receive Form 720ES, contact the Revenue Cabinet.

**Interest**—Interest at the "tax interest rate" is applied to corporation income and license tax liabilities not paid by the date prescribed by law for filing the return (determined without regard to extensions thereof).

**Penalties**—Penalties are:

**Failure to file an income and license tax return by the filing date including extensions**—2 percent of the tax due for each 30 days or fraction thereof that the return is late (maximum 20 percent). The minimum penalty is \$10. **KRS 131.180(1)**

**Failure to pay income or license tax by the payment date**—2 percent of the tax due for each 30 days or fraction thereof that the payment is overdue (maximum 20 percent). The minimum penalty is \$10. **KRS 131.180(2)**

**Late payment or underpayment of estimated tax**—10 percent of the late payment or underpayment. The minimum penalty is \$25. **KRS 131.180(3)**

**Failure or refusal to file an income and license tax return or furnish information requested in writing**—5 percent of the tax assessed for each 30 days or fraction thereof that the return is not filed or the information is not submitted (maximum 50 percent). The minimum penalty is \$25. **KRS 131.180(4)**

**Negligence**—10 percent of the tax assessed. **KRS 131.180(7)**

**Fraud**—50 percent of the tax assessed. **KRS 131.180(8)**

**Cost of Collection Fees**—20 percent on all taxes which become final, due and owing. These collection fees are in addition to all other penalties provided by law. **KRS 131.440**

## FORM 720—GENERAL INSTRUCTIONS

### Income Tax Filing Methods

**Separate Entity**—A corporation is required to file a separate entity income tax return unless for any part of the taxable year it is a member of an affiliated group electing to file a consolidated return. **KRS 141.200(2)**

**Consolidated Return**—A group of corporations which constitutes an "affiliated group" as defined by IRC Section 1504(a) may elect to file a consolidated Kentucky income tax return. To make this election, Form 722, Election to File Consolidated Kentucky Corporation Income Tax Return, must be submitted to the Revenue Cabinet with the return timely filed for the first taxable year for which the election is made. If a consolidated return is filed, a copy of federal Form 851, Affiliations Schedule, and Kentucky Form 851-K, Kentucky Affiliations and Payment Schedule, must be attached. **KRS 141.200(3), Regulation 103 KAR 16:200**

### License Tax Filing Methods

**Separate Entity**—A corporation is required to file a separate entity license tax return except as provided in KRS 136.071 and KRS 136.100(3). **KRS 136.090**

**Consolidated Return**—A corporation domiciled in Kentucky which holds stock or securities in other corporations equal to or greater than 50 percent of its total assets (investment ratio) may file a consolidated license tax return with all corporations (except those corporations exempt from tax under KRS 136.070) in which it owns directly or indirectly more than 50 percent of the corporation's outstanding stock. If a consolidated return is filed, attach a schedule listing the corporations included in the license tax return and the computation of the investment ratio. **KRS 136.071**

In any case where two or more corporations merge, consolidate or otherwise combine into a single corporation after the close of the taxable year, but before the beginning of the succeeding taxable year, all factors used to determine the corporation license tax liability of the surviving corporation shall be computed on the basis of the consolidated accounting records of such corporations. Attach a schedule listing the corporations included in the return. **KRS 136.100(3)**

## FORM 720—SPECIFIC INSTRUCTIONS

**Period Covered**—File the 1997 return for calendar year 1997 and fiscal years that begin in 1997. For a fiscal year, fill in the tax year space at the top of the form. Failure to enter a taxable period may result in a request for a delinquent return.

**Item A**—The applicable boxes must be checked to identify the corporation's filing status.

## Income Tax Return

**Separate entity**—Check this box if the income tax return is filed on a separate entity basis.

**Consolidated**—Check this box if the corporation is the common parent of an affiliated group filing a consolidated income tax return.

**Return not required**—Check this box and enter one of the following reason codes if the corporation is not required to file the income tax return.

Reason Code	Reason
11	This return contains only the license tax computation. This corporation is a member of an affiliated group which filed a consolidated income tax return. <b>Item B must be completed by entering the name and the Kentucky Account Number of the common parent.</b>
12	This return contains only the license tax computation. The corporation is exempt from income tax in accordance with Public Law 86-272.

## License Tax Return

**Separate entity**—Check this box if the license tax return is filed on a separate entity basis.

**Consolidated**—Check this box if the corporation qualifies and computes capital employed on a consolidated basis in accordance with KRS 136.071.

**Return not required**—Check this box and enter one of the following reason codes if the corporation is not required to file the license tax return.

Reason Code	Reason
21	License tax is not due. This corporation is a public service company subject to taxation under KRS 136.120.
22	License tax is not due. The net income tax liability is computed on a short-period basis due to a change in ownership or in the S corporation election without a change in accounting period (see <b>Item F</b> if a short-period return is filed).
23	This return contains only the income tax computation. This corporation is the common parent of an affiliated group which filed a consolidated income tax return, but is not organized in Kentucky, does not have its commercial domicile in Kentucky, and does not own or lease property or have individuals receiving compensation in Kentucky.
24	This return contains only the income tax computation. This corporation is a nonparent member of a group which filed a consolidated license tax return in accordance with KRS 136.071 (see instructions for criteria to file a consolidated license tax return and the options within that election). <b>Item B must be completed by entering the name and the Kentucky Account Number of the parent.</b>
25	This return contains only the income tax computation. This corporation carries on business in Kentucky only as a partner in a partnership.
26	This entity is unincorporated and is therefore not subject to license tax (see Revenue Policy 41P600 for a discussion).

**Name and Address**—Print or type the corporation's name as set forth in the charter. For the address, include the suite, room or other unit number after the street address. If the U.S. Postal



Service does not deliver mail to the street address and the corporation has a P.O. box, show the box number instead of the street address (see **Item F** if a change in address has occurred).

**Telephone Number**—Enter the business telephone number of the principal officer or chief accounting officer signing this return.

**Kentucky Business Code Number**—Enter the four-digit principal business activity code number listed in the federal Form 1120 instructions that best describes the principal business activity in Kentucky. **Note:** The Kentucky and federal business code numbers entered on Form 720 may be different if the principal business in Kentucky varies from the principal business outside Kentucky. Enter a brief description of the Kentucky activity in the appropriate box next to the Kentucky Business Code Number.

**Item B**—See Reason Codes 11 and 24 under Item A.

**Item C**—Enter the six-digit Kentucky Account Number in the appropriate box at the top of each form and schedule and on all checks and correspondence.

Prior to doing business in Kentucky, each corporation should complete a Kentucky Tax Registration Application, Revenue Form 10A100. The application is available at Kentucky Taxpayer Service Centers or from the Revenue Cabinet, Taxpayer Registration Section, Frankfort, KY 40620 (see Revenue Circular 10C030). The application may be faxed to (502) 227-0772.

If the account number is lost, please telephone (502) 564-8139.

**Item D**—Enter the corporation's Federal Identification Number. See federal Publication 583 if the corporation has not obtained this number.

**Item E**—Enter the corporation's federal principal business activity number from the instructions to Form 1120.

**Item F**—If any of the following conditions are applicable, please check the appropriate box:

- (a) This return is the corporation's initial return. Complete questions 1, 2 and 3 on Form 720, page 2, Schedule Q, Kentucky Corporation Questionnaire.
- (b) This return is the corporation's final return, i.e., the corporation dissolved, withdrew its qualification, or otherwise ceased to do business in Kentucky during the taxable period.
- (c) This return is a short-period return. Submit an explanation of the reason for the short-period return.
- (d) A change in name or address has occurred. Submit a copy of the amendment of the articles of incorporation for a name change.

## PART I—TAXABLE INCOME COMPUTATION

**Line 1**—Enter the amount of federal taxable income in accordance with the following instructions:

- (a) **Separate Entity Kentucky Return/Separate Entity Federal Return**—If this is a separate entity income tax return and the corporation filed a separate entity federal income tax return for the taxable year, enter the amount from Line 28 of Form 1120, or Line 24 of Form 1120A. **Attach a copy of Form 1120, page 1, or Form 1120A, page 1.**
- (b) **Separate Entity Kentucky Return/Consolidated Federal Return**—If this is a separate entity income tax return and the corporation participated in a consolidated federal income tax return for the taxable year, enter the amount from Line 28 of the pro forma Form 1120 prepared on a separate entity basis. **Attach a copy of the pro forma Form 1120, page 1.**

- (c) **Consolidated Kentucky Return/Consolidated Federal Return**—If this is a consolidated income tax return and the corporations participated in a consolidated federal income tax return for the taxable year, enter the amount from Line 28 of the consolidated Form 1120. If the consolidated federal return includes a corporation which is exempt from Kentucky income tax, an adjustment to exclude the income or loss of the corporation must be made on Line 7 or 14. See instructions for Lines 7 and 14. **Attach a copy of Form 1120, page 1.**

- (d) **Consolidated Kentucky Return/Separate Entity Federal Return**—If this is a consolidated income tax return and no member of the affiliated group participated in a consolidated federal income tax return for the taxable year, enter the amount from Line 28 of the pro forma Form 1120 prepared on a consolidated basis including all members of the affiliated group as defined in Section 1504(a) of the IRC and related regulations except any corporation exempt from Kentucky income tax. **Attach a copy of the pro forma Form 1120, page 1.**

**Special Returns**—If the corporation is an organization which filed a special return for federal purposes (e.g., 1120H, 1120POL), enter the amount from the line on the special return which is comparable to Line 28 (Form 1120), federal taxable income. **Attach pages of form comparable to pages 1 and 4 of Form 1120.**

**Corporations Doing Business in Kentucky Solely as a Partner in a Partnership**—If during the taxable period the corporation was not organized under the laws of Kentucky, was not commercially domiciled in Kentucky and neither owned or leased tangible property nor had employees in Kentucky but was a partner in a partnership doing business in Kentucky, skip Lines 1 through 15 and follow the instructions under Line 16 for "Corporations Doing Business in Kentucky Solely as a Partner in a Partnership." **KRS 141.206**

**Additions to Federal Taxable Income**—Lines 2 through 7 itemize the differences between federal taxable income and Kentucky taxable net income which represent additional taxable income or unallowed deductions.

**Line 2**—Enter interest income from obligations of states other than Kentucky and the political subdivisions of states other than Kentucky. **KRS 141.010(12)(c)**

**Line 3**—Enter state taxes measured in whole or in part by gross or net income. "State" means any state of the United States, the District of Columbia, the commonwealth of Puerto Rico, any territory or possession of the United States or any foreign country or political subdivision thereof (see Revenue Policies 41P100, 41P110, 41P120 and 41P121 for discussion of some of these state taxes). Attach a schedule reflecting the total taxes deducted on Form 1120. **KRS 141.010(13)(a)**

**Line 4**—Enter the transition amount (income) reflected on Form 762TS, Line 5, filed for the 1994 taxable year. This amount represents the excess of the adjusted federal basis of transition property over the adjusted Kentucky basis of transition property. This difference reconciles past differences between the Kentucky and federal depreciation deduction amounts. Attach a copy of the 1994 Form 762TS. **KRS 141.010(14)(a)**

**Line 5**—Enter safe harbor lease adjustments (see Revenue Circular 41C020 for an explanation of the adjustments for the seller-lessee or purchaser-lessor). Attach schedule. **KRS 141.010(12)(h) and (13)(e)**

**Line 6**—Enter deductions attributable to income which is exempt from taxation. Any expense related directly or indirectly to the acquisition, management or disposition of assets, the income from which is exempt, is not deductible. The related expense adjustment is required regardless of whether any income was

actually received or accrued during the taxable year (see Revenue Policy 41P150 for a discussion). Attach schedule. **KRS 141.010(13)(d)**

**Line 7**—Enter other differences which result in additions to federal taxable income in computing Kentucky taxable net income:

- (a) Corporations that carried on transactions with stockholders of affiliated corporations directly or indirectly shall increase the net income of the corporation to an amount that would result if the transactions were carried on at arm's length. **KRS 141.205**
- (b) To determine the maximum depletion or contribution deductions allowable for Kentucky purposes, the percentage limitations provided by the IRC must be applied to Kentucky gross/net income rather than federal gross/net income (see Revenue Policy 41P070 for a discussion). **KRS 141.050**
- (c) Ignore the provisions of IRC Section 281, Terminal Railroad Corporations and Their Shareholders. **KRS 141.010(12)(g)**
- (d) The passive activity loss limitation rules of IRC Section 469 as they apply to personal service corporations and closely held C corporations are applicable for Kentucky income tax purposes. However, because of the differences listed above, the amounts of income and deductions used to determine passive activity losses for Kentucky may differ from the amounts used for federal income tax purposes. Therefore, corporations subject to the passive activity loss limitations must file federal Form 8810, Corporate Passive Activity Loss and Credit Limitations, using Part I and appropriate worksheets, reflecting the allowable passive activity loss(es) for Kentucky purposes. See instructions for federal Form 8810.
- (e) Any difference in the gain (loss) upon disposition of intangible assets resulting from a difference between the accumulated federal amortization deduction and the accumulated Kentucky amortization deduction. **Regulation 103 KAR 15:090**
- (f) If this return is a consolidated return and Line 28 of the consolidated Form 1120 includes the federal taxable loss of a corporation which is exempt from Kentucky income tax (exempt corporation), include the federal taxable loss of the exempt corporation on this line. If the consolidated Form 1120 includes more than one exempt corporation, combine the federal taxable income (loss) of all exempt corporations (attach schedule). If the result is a net loss, include the amount on this line. If the result is a net income, see Item (g) of Line 14 instructions. **KRS 141.200, Regulation 103 KAR 16:200**

**Line 8**—Enter the total of Lines 1 through 7.

**Subtractions from Federal Taxable Income**—Lines 9 through 14 itemize the differences between federal taxable income and Kentucky taxable net income which represent items of income which are excluded or additional deductions allowed.

**Line 9**—Enter the amount of interest income from U. S. government bonds or from securities issued by a federal agency or other income exempt from state taxation by the Kentucky Constitution, the United States Constitution or the United States Code. Securities which are merely "guaranteed" by the U.S. government are not tax-exempt. Attach a schedule listing the type of obligation and the amount of tax-exempt interest (see Revenue Circular 40C003 for a tax status listing). **KRS 141.010(12)(a)**

**Line 10**—Enter the amount of dividend income from Form 1120. **KRS 141.010(12)(b)**

**Line 11**—Enter the transition amount (deduction) reflected on Form 762TS, Line 5, filed for the 1994 taxable year. This amount represents the excess of the adjusted Kentucky basis of transition property over the adjusted federal basis of transition

property. This difference reconciles past differences between the Kentucky and federal depreciation deduction amounts. Attach a copy of the 1994 Form 762TS. **KRS 141.010(14)(a)**

**Line 12**—Enter the amount of the jobs credit reflected on federal Form 5884. For Kentucky purposes, the corporation may deduct the total amount of salaries and wages paid or incurred for the taxable year (see Revenue Policy 41P090 for a discussion).

**Line 13**—Enter safe harbor lease adjustments (see Revenue Circular 41C020 for an explanation of the necessary adjustments for the seller-lessee or purchaser-lessor). Attach schedule. **KRS 141.010(12)(h) and (13)(e)**

**Line 14**—Enter other differences which result in subtractions to federal taxable income in computing Kentucky taxable net income:

- (a) 50 percent of the gross royalty income derived from any disposal of coal with a retained economic interest defined by IRC Section 631(c) and all IRC Section 272 expenses if the corporation elects not to use percentage depletion. A deduction is allowed for cost depletion and other expenses not classified as IRC Section 272 expenses for federal income tax purposes (see Revenue Policy 41P080 for a discussion). **KRS 141.010(12)(d)**
- (b) The value of leasehold interest of property donated to a charitable organization which is to be used to provide living quarters for a homeless family. This deduction is a special deduction allowed for Kentucky in addition to the ordinary charitable contribution deduction allowed by Chapter 1 of the IRC. However, in accordance with KRS 141.010(13)(d), the same item may not be deducted more than once. **KRS 141.0202**
- (c) Any difference in the gain (loss) upon disposition of intangible assets resulting from a difference between the accumulated federal amortization deduction and the accumulated Kentucky amortization deduction. **Regulation 103 KAR 15:090**
- (d) Ignore the provisions of IRC Section 281, Terminal Railroad Corporations and Their Shareholders. **KRS 141.010(12)(g)**
- (e) The passive activity loss limitation rules of IRC Section 469 as they apply to personal service corporations and closely held C corporations are applicable for Kentucky income tax purposes. However, because of the differences listed above, the amounts of income and deductions used to determine passive activity losses for Kentucky may differ from the amounts used for federal income tax purposes. Therefore, corporations subject to the passive activity loss limitations must file federal Form 8810, Corporate Passive Activity Loss and Credit Limitations, using Part I and appropriate worksheets, reflecting the allowable passive activity loss(es) for Kentucky purposes. See instructions for federal Form 8810.
- (f) To determine the maximum depletion or contribution deductions allowable for Kentucky purposes, the percentage limitations provided by the IRC must be applied to Kentucky gross/net income rather than federal gross/net income (see Revenue Policy 41P070 for a discussion). **KRS 141.050**
- (g) If this return is a consolidated return and Line 28 of the consolidated Form 1120 includes the federal taxable income of a corporation which is exempt from Kentucky income tax (exempt corporation), include the federal taxable income of the exempt corporation on this line. If the consolidated Form 1120 includes more than one exempt corporation, combine the federal taxable income (loss) of all exempt corporations (attach schedule). If the result is a net income, include the amount on this line. If the result is a net loss, see Item (f) of Line 7 instructions. **KRS 141.200, Regulation 103 KAR 16:200**

**Line 15**—Subtract Lines 9 through 14 from Line 8.

**Line 16**—Enter the amount from Line 15 or the amount on Schedule A, Section II, Line 8, if applicable. A corporation having property or payroll both within and without Kentucky must allocate and apportion income to Kentucky on Schedule A (Form 720), Apportionment and Allocation. See Schedule A Instructions for information on the apportionment fraction. **KRS 141.010(14) and KRS 141.120**

**Corporations Doing Business in Kentucky Solely as a Partner in a Partnership**—If during the taxable period the corporation was not organized under the laws of Kentucky, was not commercially domiciled in Kentucky and neither owned or leased tangible property nor had employees in Kentucky but was a partner in a partnership doing business in Kentucky, enter the net amount of the corporation's distributive share of net income, gain, loss and deductions from Schedule K-1, Form 765, Partner's Share of Income, Credits, Deductions, Etc. In determining the net amount, each item must be multiplied by the percentage shown in Item D on Schedule K-1, Form 765. Attach Schedule K-1, Form 765.

**Line 17**—For Kentucky purposes, the same carryback-carryforward provisions allowed by IRC Section 172 are applicable for losses incurred in taxable years beginning after December 31, 1979, except that no loss may be carried to a taxable year beginning before January 1, 1980. Generally, a corporation may carry an NOL back to each of the three years preceding the year of the loss and then carry any remaining amount over to each of the 15 years following the year of the loss. The amount to be carried back or forward is the amount of loss determined by KRS Chapter 141 and, in the case of multistate corporations, it is the amount determined after apportionment and allocation. Attach a schedule showing the computation of the NOL deduction but do not enter more than the corporation's taxable income (see Revenue Policy 41P070 for a discussion). For additional details on carryback and carryover rules, see federal Publication 536, Net Operating Losses. **KRS 141.050**

**Line 18**—Subtract Line 17 from Line 16.

## **PART II—INCOME TAX COMPUTATION**

**Lines 1(a) through (e)**—To compute the liability, apply the following rates:

- (a) 4 percent of the first \$25,000 of taxable net income;
- (b) 5 percent of the amount of taxable net income in excess of \$25,000, but not in excess of \$50,000;
- (c) 6 percent of the amount of taxable net income in excess of \$50,000, but not in excess of \$100,000;
- (d) 7 percent of the amount of taxable net income in excess of \$100,000, but not in excess of \$250,000; and
- (e) 8.25 percent of the amount of taxable net income in excess of \$250,000.

**Line 2**—Add Lines 1(a) through (e).

**Line 3—Unemployment Tax Credit.** If a corporation has hired a Kentucky resident classified as unemployed for at least 60 days and the resident remains in the employ of the corporation for 180 consecutive days during the tax year (a qualified person), the corporation may be entitled to the unemployment tax credit. For each qualified person, a one-time credit of \$100 may be claimed, not to exceed the income tax liability for the year. The period of unemployment must be certified by the Cabinet for Workforce Development, Frankfort, KY, and a copy of the certification must be maintained by the corporation. To claim this credit, Schedule UTC must be attached. **KRS 141.065**

**Line 4—Recycling/Composting Tax Credit.** A corporation, which purchases recycling and/or composting equipment to be used exclusively in Kentucky for recycling or composting

post-consumer waste materials, may be entitled to a credit against the income tax imposed on the corporation by KRS Chapter 141 in an amount equal to 50 percent of the installed cost of the equipment. Application for this credit must be made on Schedule RC, and a copy of the schedule reflecting the amount of credit approved by the Revenue Cabinet must be attached to the corporation's return on which the credit is claimed. The amount of this credit claimed for the tax year may not exceed 25 percent of the income tax liability less any unemployment tax credit claimed for the year. **KRS 141.390**

**Line 5—Coal Conversion Tax Credit.** A corporation which converts boilers from other fuels to the use of Kentucky coal or which substitutes Kentucky coal for other fuels in a boiler capable of burning coal and other fuels to produce energy for specific purposes may be entitled to a credit against corporation income tax equal to 4.5 percent of expenditures for Kentucky coal (less transportation costs). Unused portions of this credit cannot be carried forward or back. To claim this credit, Schedule CC must be attached. **KRS 141.041**

**Line 6—Enterprise Zone Tax Credit.** For employees hired on or after July 14, 1992, a corporation certified by the Kentucky Enterprise Zone Authority as a qualified business may be entitled to a credit against Kentucky corporation income tax equal to 10 percent of wages paid to each employee who has been certified by the Cabinet for Workforce Development as having been unemployed for at least 90 days or having received public assistance benefits, based on need and intended to alleviate poverty, for at least 90 days prior to employment with the qualified business. The credit is limited to \$1,500 per employee, and any unused credit may be carried forward for up to five years. To claim the credit, Schedule EZC must be filed (see Revenue Circular 10C001 for a discussion). **KRS 154.45-090**

**Line 7**—Subtract Lines 3 through 6 from Line 2.

**Line 8**—Enter the total of estimated tax payments made for the taxable year.

**Line 9**—Enter the amount of income tax paid with Form 41A720SL, Application for Six-Month Extension of Time to File Kentucky Corporation Income and License Tax Return.

**Line 10**—Enter the amount credited to 1997 from Part II, Line 16 of the 1996 income tax return.

**Line 11**—Enter the license tax overpayment credited to the 1997 income tax liability from Part III, Line 23.

**Line 12**—If Line 7 is greater than the total of Lines 8 through 11, enter the difference on this line and submit payment.

**Line 13**—If Line 7 is less than the total of Lines 8 through 11, enter the difference.

**Line 14**—Enter the portion of Line 13 credited to the 1997 license tax liability in Part III, Line 20.

**Line 15**—Enter the portion of Line 13 claimed as an estimated tax payment for 1998.

**Line 16**—Enter the portion of Line 13 (Line 13 less Lines 14 and 15) to be refunded.

## **PART III—LICENSE TAX COMPUTATION**

**NOTE:** If the Final Return box in Item F has been checked, no license tax is due. Enter -0- on Line 18 and complete Lines 19 through 25, where applicable.

**Line 1**—Enter the year-end balance of capital stock from the balance sheet (Form 1120, Schedule L). Capital stock consists of the issued and outstanding capital stock, less treasury stock (see Revenue Policy 41P520 for a discussion). **KRS 136.070(2)(a)**



**Line 2**—Enter the year-end balance of paid-in or capital surplus from the balance sheet (Form 1120, Schedule L) (see Revenue Policy 41P520 for a discussion). **KRS 136.070(2)(a)**

**Line 3**—Enter the year-end balance of retained earnings—appropriated from the balance sheet (Form 1120, Schedule L) (see Revenue Policy 41P520 for a discussion). **KRS 136.070(2)(a)**

**Line 4**—Enter the year-end balance of retained earnings—unappropriated from the balance sheet (Form 1120, Schedule L) (see Revenue Policy 41P520 for a discussion). **KRS 136.070(2)(a)**

**Line 5**—Enter the year-end balance of mortgages, notes and bonds payable in less than one year from the balance sheet (Form 1120, Schedule L). Borrowed monies include short-term borrowing of funds and loans from stockholders (see Revenue Policy 41P520 for a discussion). **KRS 136.070(2)(a)**

**Line 6**—Enter the year-end balance of advances by affiliated companies from the balance sheet (Form 1120, Schedule L). **KRS 136.070(2)(a)**

**Line 7**—Enter the year-end balance of mortgages, notes and bonds payable in one year or more from the balance sheet (Form 1120, Schedule L). Borrowed monies include long-term borrowing of funds and loans from stockholders (see Revenue Policy 41P520 for a discussion). **KRS 136.070(2)(a)**

**Line 8**—Enter the year-end balance, or portion thereof, of all other liability accounts, current and long term, that represent additional capital employed in the business from the balance sheet (Form 1120, Schedule L) (see Revenue Policy 41P520 for a discussion). **KRS 136.070(2)(a)**

**Line 9**—Enter the year-end balance of intercompany accounts. **KRS 136.070(2)(a)**

**Line 10**—Enter the year-end balance of all other accounts representing additional capital used and employed in the business from the balance sheet (Form 1120, Schedule L). Include all other unspecified accounts which are reported in the Liabilities and Stockholders Equity section of the balance sheet which are not generally categorized or which may be unique to certain businesses (see Revenue Policy 41P520 for a discussion). **KRS 136.070(2)(a)**

**Line 11**—Enter monies borrowed to purchase inventory if the corporation can show by evidence submitted with the return that the monies were used to purchase inventory. If a line of credit is used, the Revenue Cabinet will accept the following types of evidence to establish that all or a portion of the borrowed money has been used directly to purchase inventory:

1. A copy of the loan agreement, or other document executed at the time the line of credit is established, stating that the sole purpose of the loan is for purchasing inventory. If such a document is submitted to the Revenue Cabinet, the lesser of the balance of the line of credit at the end of the year or the total cost of the inventory purchased for the year will be excluded from the calculation of "capital" under KRS 136.070.
2. If the corporation cannot produce documentation that the line of credit is to be used solely for the purchase of inventory, the Revenue Cabinet will allow a pro rata portion of the line of credit balance to be excluded from "capital" by using a formula to determine the amount of the line of credit reasonably attributable to the purchase of inventory.

- (a) The amount of monies borrowed to finance inventory will be determined by multiplying the line of credit balance at the end of the taxable year by a fraction, the numerator of which is cash outlays for inventory during the taxable year and the denominator of which is total cash outlays during the taxable year.

- (b) Any other formula sufficient to document that all or a portion of the borrowed monies are attributable to the purchase of inventory will be considered by the Revenue Cabinet upon submission.

(See Revenue Policies 41P520, 41P530 and 41P550 for discussions of borrowed monies.)

**Line 12**—This deduction is available only to a corporation filing a separate entity license tax return which qualifies under KRS 136.071(1) and determines capital in accordance with KRS 136.071(1)(a) and (b). Enter the book value of the corporation's investment in the stock and securities of any corporation in which it owns more than 50 percent of the corporation's outstanding stock. See Form 720—General Instructions. **KRS 136.071**

**Line 13**—Enter the total of Lines 1 through 12.

**Line 14**—Enter "100" or the apportionment fraction from Schedule A, Section I, Line 12, if applicable.

**Line 15**—Multiply the amount on Line 13 by the percentage on Line 14.

**Line 16**—Multiply the amount on Line 15 by .0021. Enter the result or \$30, whichever is greater. The license tax rate is \$2.10 on each \$1,000 of capital employed in the business in Kentucky or a minimum of \$30. **KRS 136.070(1) and (5)**

**Line 17**—A corporation with gross income of \$500,000 or less is allowed a credit against the license tax of \$1.40 per \$1,000 of the first \$350,000 of capital employed (maximum credit \$490). For the purpose of this credit, gross income means total taxable and nontaxable receipts and shall not be reduced by cost of goods sold, cost of assets sold or other deductions. **KRS 136.070(a) and Regulation 103 KAR 20:010**

**Line 18**—Subtract Line 17 from Line 16 and enter the result or \$30, whichever is greater.

**Line 19**—Enter the amount of license tax paid with the application for Six-month Extension of Time to File Kentucky Corporation Income and License Tax Return, Form 41A720SL.

**Line 20**—Enter the income tax overpayment credited to the 1997 license tax liability from Part II, Line 14.

**Line 21**—If line 18 is greater than the total of Lines 19 and 20, enter the difference and submit payment.

**Line 22**—If Line 18 is less than the total of Lines 19 and 20, enter the difference.

**Line 23**—Enter the portion of Line 22 credited to the 1997 income tax liability in Part II, Line 11.

**Line 24**—Enter the portion of Line 22 claimed as an estimated income tax payment for 1998.

**Line 25**—Enter the portion of Line 22 (Line 22 less Lines 23 and 24) to be refunded.

**Tax Payment Summary**—The payment submitted with Form 720 must be itemized. Enter the amount of income tax payment on the Income line (Part II, Line 12), the amount of license tax payment on the License line (Part III, Line 21), the amount of interest payment on the Interest line, the amount of penalty payment on the Penalty line, and the total payment on the TOTAL line.

**Signature**—Form 720 must be signed by an authorized corporate officer. **Failure by corporate officers to sign the return, to complete all applicable lines on any required Kentucky form, to attach all applicable schedules, or to complete all information on the questionnaire will delay the processing of tax returns and may result in the assessment of penalties.**

## TAXPAYER ASSISTANCE

### Forms:

Support Services Branch  
Revenue Cabinet  
200 Fair Oaks Lane  
Frankfort, KY 40620  
(502) 564-3658  
(502) 564-4459 (Forms by fax)  
<http://www.state.ky.us/agencies/revenue/revhome.htm>  
(Internet)

### Information:

Corporation Tax Section  
Revenue Cabinet  
P.O. Box 1302  
Frankfort, KY 40602-1302  
  
Revenue Cabinet  
200 Fair Oaks Lane  
Frankfort, KY 40620  
(502) 564-4581  
(502) 564-3058 (Telecommunication Device for the Deaf)

## KENTUCKY TAXPAYER SERVICE CENTERS

Information and forms are available from Kentucky Taxpayer Service Centers in the following cities.

**Ashland**, 134 Sixteenth Street, 41101-7670  
(606) 920-2037

**Bowling Green**, 1502 Westen Street, 42104-3356  
(502) 746-7470

**Corbin**, Falls Road Plaza  
1707 18th Street, Suite 5, 40701-8676  
(606) 528-3322

**Hazard**, 233 Birch Street, 41701-2179  
(606) 435-6017

**Hopkinsville**, 105 Hammond Plaza  
4011 Ft. Campbell Blvd., 42240-4929  
(502) 889-6521

**Lexington**, 301 East Main Street, Suite 500, 40507-1556  
(606) 246-2165

**Louisville**, 620 South Third Street  
Suite 102, 40202-2446  
(502) 595-4512

**Northern Kentucky**, Turfway Ridge Office Park  
7310 Turfway Road, Florence, 41042-1385  
(606) 371-9049

**Owensboro**, Building C, Suite 201  
401 Frederica Street, 42302  
(502) 687-7301

**Paducah**, Paducah Bank Building, Suites 302/306  
555 Jefferson Street, 42001-1001  
(502) 575-7148

**Pikeville**, 5333 North Mayo Trail, 41501-8230  
(606) 433-7675

**INTANGIBLE PROPERTY TAXES**—The listing period for intangible property is January 1 through May 15 of each year. Each taxpayer is responsible for reporting intangible property subject to ad valorem taxation. The Intangible Property Tax Return, Revenue Form 62A376, and instructions are included in this packet.

**TANGIBLE PERSONAL PROPERTY TAXES**—The listing period for tangible personal property is January 1 through May 15 of each year. Each taxpayer is responsible for reporting his tangible personalty subject to ad valorem taxation. The Tangible Personal Property Tax Return, Revenue Form 62A500, and instructions can be obtained from the Department of Property Taxation or your local county property valuation administrator's office. A separate form must be filed for each location in Kentucky where you have tangible personal property.